
**Application of the American Automobile Insurance Company/Fireman's Fund
Insurance Company to Deviate from the Fixed-and-Established
Rates for Private Passenger Automobile Insurance
Docket No. R2004- 04**

DECISION

On January 14, 2004, the American Automobile Insurance Company/Fireman's Fund Insurance Company ("Fireman's Fund"), pursuant to Massachusetts General Laws c. 175, §113B, applied to the Commissioner of Insurance for permission to deviate downward from the rates for private passenger automobile insurance for 2004 which had been fixed and established by the Commissioner in a decision issued December 15, 2003. The application requested a two percent downward deviation on all coverages for vehicles assigned to Step 9 of the Safe Driver Insurance Plan ("SDIP"). By notice dated January 21, 2004, a hearing on the application was scheduled for February 3. (Exhibit 1)

I was designated presiding officer for the proceeding. William Holley, Esq. represented Fireman's Fund, and Thomas McCall, Esq. represented the State Rating Bureau ("SRB"). No other person or entity, including the Attorney General and the Automobile Insurers' Bureau of Massachusetts, sought to intervene or otherwise to participate in the hearing.

Fireman's Fund's filing included a deviation abstract on Form SRB-DV-1, a filing memorandum, and six internal exhibits. Those exhibits provided the following analyses of Fireman's Fund's data: 1) the rate effect of the proposed deviation; 2) comparative loss ratios for vehicles rated at SDIP Step 9 and vehicles at all other SDIP steps for the period from January 1, 2001 through December 31, 2003; 3) the effect of the proposed deviation on surplus; 4) historical expense levels; 5) historical claims experience; and 6) two-year overall operating ratios. (Exhibit 2) Mary Hosford, FCAS, MAAA, Actuarial Director of personal insurance for the Fireman's Fund Insurance Companies, testified in support of Fireman's Fund's request. She stated that she was responsible for preparation and presentation of its filing.

Ms. Hosford testified that the requested deviation would apply to all Fireman's Fund insured vehicles rated in SDIP Step 9, and to all coverages. She stated that it would be available in all areas and territories, to both voluntary and ceded business, and to business written by exclusive representative producers ("ERPs") and by voluntary agents.

Ms. Hosford testified that, although Fireman's Fund does not now offer any group discount programs and has no plans to do so, should it decide to offer any group discounts, it would apply the proposed deviation multiplicatively in conjunction with the discount. She stated that Fireman's Fund has no servicing agreements relating to its ERP business, and that no other companies in its company group write private passenger automobile insurance in Massachusetts. She testified that even if a company related to Fireman's Fund is licensed to write private passenger automobile insurance in Massachusetts, no such company has any plans to start writing such coverage. Ms. Hosford stated that the deviation would not be used by Fireman's Fund as a means of attracting only such risks which would be regarded as presenting less hazard of loss than other risks in the same classification.

The SRB stated that based on the record presented, but without endorsing any particular argument, input or methodology presented by Fireman's Fund, it had no objection to the approval of Fireman's Fund's proposed deviation.

Analysis

The statutory standards applicable to rate deviation requests, set out in G. L. c. 175, §113B, ¶1, require that the Commissioner, before approving a request, hold a hearing and, on the basis of the record, find that the deviation is justified and that the reduced premium charges are adequate, just, reasonable and nondiscriminatory and will not be used as a means of attracting risks which present less hazard of loss than other risks in the same classification. Moreover, §113B requires that all deviations shall be uniformly applied throughout the Commonwealth. The Commissioner must consider as well whether the proposal complies with all applicable Massachusetts insurance statutes and regulations. The word "classification" has been interpreted to include all risks at each SDIP step. *Application of Liberty Mutual Insurance Company*, DOI Docket No. R95-23. As discussed in that decision, this interpretation is consistent with the important goal of encouraging safe driving.

Fireman's Fund's data and analyses support its position that the rate deviation it seeks will produce rates that are adequate, just, reasonable and non-discriminatory for the insured risks at SDIP Step 9. Further, I find that approval of the requested rate deviation will have no adverse effect on Fireman's Fund's solvency.

Therefore, after consideration of all the evidence presented, I find that the requested deviation is justified and that the deviated premium charges that Fireman's Fund desires to use are adequate, just, reasonable and nondiscriminatory, and will not be used as a means of attracting only such risks as are regarded as presenting less hazard of loss than other risks in the same classification. I find, further, that the deviation will be applied uniformly throughout the Commonwealth. Accordingly, Fireman's Fund's request for a two percent downward deviation from the 2004 Massachusetts private passenger automobile insurance rates for vehicles assigned to SDIP Step 9 is approved.

February 9, 2004

Jean F. Farrington, Esq.
Presiding Officer

This decision may be appealed in the manner and to the extent permitted by G.L. c. 26, §7 and c. 175, §113B.